

Risk Category	Description of Risk
Public or Political Sensitivity	The sensitivity of the unit to public exposure of any internal issues and the level of public embarrassment that could be caused to the agency as a whole.
Strategic	The risk that work performed is no longer justified. Or if justified, the risk that business objectives will not be achieved because business strategies are poorly defined and communicated, or the organization is unable to execute these strategies due to inadequate organizational structure, infrastructure, or alignment. Strategic risk is managed by appropriate organizational governance. Failure to adequately plan and execute against organizational goals may result in significant damage to the organization's reputation.

The risks clearly identify more than financial or accounting risks. Thus, when the audit plan is based on a completed risk assessment, it will represent those areas of highest risk to the agency and as a result will identify the appropriate type of audit that should be conducted to evaluate that issue.

Conducting a risk assessment and creating annual audit plans involves several steps. The methodology to create an audit plan should include the following steps, at a minimum:

1. Define the agency's "auditable units." An auditable unit is the smallest unit or program within the agency that merits auditing.
2. Conduct interviews to gather information about the unit.
3. Document key information on the auditable unit.
4. Answer the questions in the risk assessment tool based on collected information.
5. Quantify each auditable unit's risk.
6. Calculate the weighted risk for each auditable unit.
7. Prioritize internal audit tasks by calculated weighted risk and create the audit plan.

The annual audit plan must be comprehensive and meaningful. To ensure that the staff responsible for approving the plan possess the sufficient competency and experience (professional judgment) to maximize the value provided by this activity, we recommend therefore that final development and approval of the audit plan be performed by no less than an Internal Audit Manager. (Please refer to **Appendix C** for recommended new internal auditor job classifications.) Typically, internal audit plans are distributed within the agency. However, because the state